

VERMONT STATE EMPLOYEES' RETIREMENT SYSTEM

Meeting of the Board of Trustees – In-House Meeting

May 12, 2016 – 9:00 a.m.

DRAFT COPY – NOT YET APPROVED BY BOARD

VSERS Members present:

Roger Dumas, Chairperson, VRSEA Representative (term expiring September 1, 2016)
Thomas Hango, Vice-Chairperson, VSEA Representative (term expiring September 1, 2016)
Judy Rosenstreich, VSEA Representative (term expiring September 1, 2017)
Allen Blake, VRSEA Alternate Representative (term expiring September 1, 2016)
Maribeth Spellman, Commissioner of Human Resources (ex-officio)
Andy Pallito, Commissioner of Finance & Management (ex-officio)
Jeff Briggs, VSEA Representative (term expiring September 1, 2016)
Jay Wisner, Governor's Delegate position
Michael Clasen, VT Deputy Treasurer – representing Treasurer Beth Pearce

Members absent:

Jean-Paul Isabelle – VSEA Alternate Representative (term expiring September 1, 2017)
Beth Pearce, VT State Treasurer

Also attending:

Laurie Lanphear, Director of Retirement Operations
Joshua McCormick, Assistant to Nancy Dimick
Tim Lueders-Dumont, Policy Director
Brad Ferland, Deputy Commissioner, Finance & Management
John Berard, DHR-Labor Relations
Chip Sanville, Empower Retirement
Karl Kroner, Empower Retirement
Matt Considine, Investment Manager
Nick Foss, Investment Analyst
Brendan Morrison, Nationwide Insurance
Hazel Durand, Nationwide Insurance
Jeff Francis, Nationwide Insurance
Joe Gray, VSEA - Corrections
Brad Dunsmore, VSEA - Corrections
Rick Plank, VSEA - Corrections
Rebecca Trower, VSEA – Non-Management Unit

The Chairperson, Roger Dumas, called the May 12, 2016, conference call meeting to order at 9:00 a.m., which was held in the Governor's Conference Room, Fourth Floor, 109 State Street, Montpelier, VT.

ITEM 1: Deferred Compensation – Automatic Enrollment for New Employees

Mr. Hango and Mr. Briggs gave the Board and other attendees a brief history of how the VSERS Board discussed automatic enrollment in the past and stated why the VSERS Board was in favor of implementing an automatic enrollment for new employees. Mr. Kroner and Mr. Sanville presented case studies from the State of Indiana, and Sedgwick County, where automatic enrollment was implemented. In the State of Indiana, 97% of new employees continued to stay in the deferred compensation plan after 12 months, for Sedgwick County, 94% of new employees continued to stay in the deferred compensation plan.

The VSERS Board and VSEA members discussed automatic enrollment. Mr. Berard stated that this is a non-bargaining issue as it would pertain to new employees, not existing employees. Even though this is a non-bargaining issue, the Board would like support from the bargaining units of the VSEA. The VSERS Board would determine what the contribution percentage will be.

On motion by Ms. Rosenstreich, seconded by Mr. Briggs, the Board voted unanimously to support the concept of automatic enrollment in a deferred compensation plan for new state employees.

Mr. Hango stated going forward; the Board will need to address two things. First, are all VSEA bargaining units supportive of automatic enrollment? Second, analysis be done for the contribution percentage and plan data. The Board thanked the VSEA bargaining units that were able to attend the meeting for their time.

Mr. Berard, Mr. Gray, Mr. Dunsmore, Mr. Plank, and Ms. Trower all left the meeting at this time.

ITEM 2: Empower Retirement Presentation

Mr. Kroner presented to the Board the latest quarterly results for the VSERS 457 Retirement plan (1/1/16 – 3/31/16). He went over the latest results of Total Assets, Asset Growth, and the Percentage of Assets by Asset Class. Total Assets are at 392.96 million. From January 1, 2016 through March 31, 2016, there were 7,009 total participants. Mr. Kroner then discussed findings for Average Participants by Age Group, Participants and Contributions of Roth vs Regular, Contribution History, Percentage of Contributions by Asset Class, and Benefit Payment Distribution.

Mr. Kroner discussed the age breakdown of participants who are 100% invested in the Stable Value Plan. Only 152 of the participants are under the age of 50 which is roughly 5.6%.

Mr. Sanville discussed the field activity for the last quarter. He also stated to the Board that SDIA assets down 8% and participation is down 7% from this time a year ago.

ITEM 3: Fund Lineup and Annuities Review

Mr. Considine presented to the Board a memo entitled "Empower Annuity Offering Analysis". The Investments staff recommends the VSERS Board not add the Empower SecureFoundation Income fund (MXESX) to the VSERS lineup at this time, because it lacks portability and requires significant participant education for correct implementation.

Mr. Foss presented to the Board a memo entitled "Passive Bond Fund Recommendation for the VSERS 457 Deferred Compensation Plan". The Investments staff recommends that the Vanguard Total Bond Market Index fund (VBTIX) be selected. Mr. Foss stated that the VBTIX fund ranks the best among three main categories: cost, tracking error, and organizational strength.

On motion by Mr. Wisner, seconded by Mr. Briggs, the Board voted unanimously to approve the addition of the Vanguard Total Bond Market Index fund to the plan lineup.

ITEM 4: TRU-UP Report

Mr. Ferland and Mr. Pallito provided a TRU-UP update to the VSERS Board members. For fiscal year 2015, the actuaries estimated DB contributions at \$75,539,313. The actual contributions were \$81,996,664. For fiscal year 2016, actuaries estimated DB contributions at \$78,595,707. The estimated contributions from the Dept. of Finance and Management will be \$83,946,478, an additional 5.3 million above what the actuary stated. For fiscal year 2017, employer contribution is estimated at \$83,529,391.

Mr. Pallito, Mr. Ferland, Mr. Foss, Mr. Kroner, Mr. Sanville, Mr. Morrison, Ms. Durand, and Mr. Francis left the meeting at this time.

A 10 minute recess was taken.

ITEM 5: Approve the Minutes of:

- **March 10, 2016**

On motion by Mr. Wisner, seconded by Ms. Rosenstreich, the Board voted unanimously to approve the minutes of March 10, 2016 as submitted.

ITEM 6: Discuss/act on disability retirement recommendation for:

- **Kathy Carrier**
- **Eileen Haddon**
- **Steven Mestyan**
- **Peggy Miller**

On motion by Mr. Wisner, seconded by Ms. Rosenstreich, the Board voted unanimously to accept the recommendation of the MRB to allow the disability retirement for Kathy Carrier with no further review.

On motion by Mr. Wisner, seconded by Mr. Hango, the Board voted unanimously to accept the recommendation of the MRB to allow the disability retirement for Eileen Haddon with no further review.

On motion by Mr. Wisner, seconded by Mr. Hango, the Board voted unanimously to accept the recommendation of the MRB to allow the disability retirement for Steven Mestyan with a one-year review.

On motion by Mr. Wisner, seconded by Mr. Hango, the Board voted unanimously to accept the recommendation of the MRB to allow the disability retirement for Peggy Miller with no further review.

ITEM 7: Contract Extension for Buck Consultants and Actuarial RFP

Mr. Clasen stated the contract for Buck Consultants is expiring on June 30, 2016. The Treasurer's Office is asking for a six month extension and an RFP to seek a new actuary effective January 1, 2017.

On motion by Mr. Clasen, seconded by Mr. Hango, the Board voted unanimously to extend the contract for Buck Consultants to 12/31/16, subject to waiver from the administration, subject to negotiations by the Treasurer's Office, and subject to completing an RFP for Actuarial Services effective January 1, 2017.

ITEM 8: VPIC Sub-Committee Update

Mr. Lueders-Dumont gave an overview of the resolution from the House and Senate Government Operations ruling a non-binding sub-committee be formed to research divestment from fossil fuels. The sub-committee consists of Ms. Pearce, the VPIC chairperson, Tom Golonka, VPIC members Linda Deliduka and Karen Paul, and the chairpersons of the VSERS, VSTRS, and VMERS Board of Trustees. This sub-committee met with stakeholders and interested parties on 3/18/16, to discuss parameters for what a review of divestment would encompass.

On April 13, 2016, the sub-committee held its first formal meeting. The sub-committee decided to pursue three tracks of review: the ExxonMobil holding, coal holdings, and the larger case of fossil fuels in general. The sub-committee also determined that its current advisor, NEPC LLC, would participate in partnership with a second firm. This second firm's cost will not come from the pension system. Mr. Lueders-Dumont also stated the next sub-committee meeting will include an overview of the fiduciary responsibilities as they relate to pension investments.

ITEM 9: Legislative Update

Mr. Clasen advised the Board that the Miscellaneous Retirement Bill has been passed by both the House and the Senate and is awaiting the Governor's signature. Proposals in the bill that pertain to the VSERS program are changes in language for survivorship benefits if a state employee dies on duty, or is murdered as a result of their job position. An increase of the employee contribution rate for Groups C, D, and F of .25 percent. Changes to the disability income verification process, which will now exclude disability members that have already reached normal retirement age. Lastly, language addressing a negative COLA and ability to create a safe harbor to prevent a negative COLA from being applied to retirees.

Mr. Clasen also advised the Board that the amortization finance proposal, which was part of the Appropriation Bill, has passed.

ITEM 10: Any other business to be brought before the Board

The terms for VSERS representatives to the VPIC Board, Robert Hooper and Jeff Briggs, are expiring on June 30, 2016. After discussion, the decision to extend or elect new representatives will be deferred to the June conference call so all Board members are given ample time to research and become more knowledgeable about VPIC's purpose and its representatives.

ITEM 11: Adjournment

On motion by Mr. Briggs, seconded by Mr. Wisner, the Board voted unanimously to adjourn at 11:53 a.m.

Next Meeting Date:

The next scheduled VSERS meeting is a Conference Call meeting, June 9th, 2016, at 9:00 a.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Joshua McCormick", written in a cursive style.

Joshua McCormick
Assistant to Nancy Dimick